REVISED ESTIMATES OF EFFECTS OF LEGISLATION ENACTED DURING 1981 AFFECTING THE FOOD STAMP AND CHILD NUTRITION PROGRAMS

Staff Memorandum

April 29, 1983

United States Congress

Congressional Budget Office

J932-24

REVISED ESTIMATES OF EFFECTS OF LEGISLATION ENACTED DURING 1981 AFFECTING THE FOOD STAMP AND CHILD NUTRITION PROGRAMS

In 1981 the Congress enacted legislation that significantly reduced Food Stamp and Child Nutrition program outlays. At that time the Congressional Budget Office provided estimates of savings. This memorandum--prepared at the request of the Senate Committee on Agriculture, Nutrition, and Forestry--presents revised estimates of savings from several Food Stamp and Child Nutrition program changes enacted during 1981. Some of the savings estimates are sensitive to assumptions about inflation rates, and these revised estimates are based on currently projected rates of inflation. In addition, some of the earlier estimates reflected technical assumptions that have proved inaccurate. Finally, additional information has entered into some of the revisions.

For the Food Stamp program, reestimates have been confined to changes affecting cost-of-living adjustments (COLAs) in the allotment levels. The rate of food price inflation has been considerably lower than assumed in the original estimates of the effects of COLA changes. Other Food Stamp program changes made in the 1981 legislation are also likely to have different effects on outlays than originally estimated. Some evidence exists, for example, that original estimates probably overstated savings from the 1981 reconciliation act provision requiring implementation of monthly reporting and retrospective budget procedures for most of the food stamp caseload. CBO is currently reexamining this issue.

Reestimates of other program changes may become possible when the Administration completes its study of the effects of Food Stamp program changes made during the 97th Congress, a study it is required to make by a provision of the Omnibus Budget Reconciliation Act of 1982.

In the Child Nutrition programs, the effects of COLA changes have also been reestimated, as have savings from several other provisions of the 1981 reconciliation act for which additional information has become available.

Table 1 shows the original estimates of the effects on outlays of Food Stamp and Child Nutrition program changes enacted during 1981, together with the revisions discussed in this memorandum. For example, the original estimate of savings in the Food Stamp program during 1982 resulting from 1981 reconciliation act changes was $1,708 million. The revised estimate is $1,410 million. Revisions for all years show smaller savings from the 1981 reconciliation act changes for both the Food Stamp and Child Nutrition programs.

TABLE 1. ORIGINAL AND REVISED ESTIMATES OF EFFECTS ON OUTLAYS OF CHANGES AFFECTING THE FOOD STAMP AND CHILD NUTRITION PROGRAMS ENACTED DURING THE FIRST SESSION OF THE 97TH CONGRESS (By fiscal year, in millions of dollars) a/

	1982	1983	1984
Food Stamp Program			
Changes Enacted in the Omnibus Budget Reconciliation Act of 1981			
Revised savings estimate	1,410	1,765	2,262
Original savings estimate	1,708	2,096	2,384
Difference	-298	-331	-122
Changes Enacted in the Food Stamp and Commodity Distribution Amendments of 1981			
Revised savings estimate	410	-485	-190
Original savings estimate	700	-250	-220
Difference	-290	-235	30
Child Nutrition Programs			
Changes Enacted in the Omnibus Budget Reconciliation Act of 1981			
Revised savings estimate	1,206	1,305	1,392
Original savings estimate	1,369	1,471	1,571
Difference	-163	-166	-179

SOURCE: Congressional Budget Office.

a/ Food Stamp program savings include those resulting from establishing a food assistance block grant in Puerto Rico. The Puerto Rico Nutrition Assistance Program, funded by this grant, has been operating in the Commonwealth since July 1982.

Table 1 also shows estimates of the effects of changes enacted in the Food Stamp and Commodity Distribution Amendments of 1981. Those changes were expected to reduce spending during 1982 and increase spending during 1983 and 1984. The revised estimate of savings declines by $290 million in 1982 and the estimated increases in spending rise by $235 million in 1983 and fall by $30 million in 1984.

The remainder of this memorandum discusses the provisions for which reestimates have been made and the basis for each reestimate.

FOOD STAMP PROGRAM CHANGES

Reestimates have been made of the effects on Food Stamp program outlays of changes in the COLA included in the Omnibus Budget Reconciliation Act of 1981 and of further changes in the COLA enacted in the Food Stamp and Commodity Distribution Amendments of 1981.

COLA Change--Omnibus Budget Reconciliation Act of 1981

Until the Omnibus Budget Reconciliation Act of 1981, the maximum allotment levels in the Food Stamp program were scheduled to be adjusted in January 1982 and in each subsequent January based on projections of the value of the Department of Agriculture's Thrifty Food Plan in the preceding December. Projected, rather than actual, values of the December Thrifty Food Plans were specified because the actual value would not have been known at the time that states were required to adjust the levels. Maximum allotment levels, which are determined for each household size, are the amounts of benefits received by households with no net food stamp income (net food stamp income is the household's gross income less applicable deductions). Allotments for households with positive net incomes are computed by subtracting 30 percent of net income from the maximum allotment level specific for each household size.

The 1981 reconciliation act changed the basis for adjusting the maximum allotment levels. Specifically, the first adjustment following enactment of the law was to be made in April 1982 based upon the actual value of the Thrifty Food Plan during December 1981. The next adjustment was to be made in July 1983 based upon the Thrifty Food Plan value in March 1983. The adjustment in 1984 and all subsequent years was to occur in October based upon June Thrifty Food Plan values.

These delays in COLAs result in savings because, for a portion of the year, the maximum allotment levels and the corresponding benefit levels are lower than they would be without the program change. The greater the rate

of inflation, the greater is the difference between the allotment levels in effect given the COLA delay and those that would have been in effect with no change in the law. The greater this difference, the greater are the savings.

Revised estimates of savings from this provision are substantially lower than original estimates because food price increases were less than projected. Table 2 shows assumed rates of food price inflation, differences between the fiscal year average maximum allotment levels for four-person households with and without the delay, and the estimated outlay savings in 1982-1984. These figures are shown as estimated in 1981 and as revised.

The differences between maximum allotment levels shown in Table 2 are based on annual averages of those in effect during the year for a four-person household under the schedule of inflation adjustments in effect before and after the legislative change. Based upon original projections, this difference would have averaged $8.00 per month for a four-person household, resulting in benefit reductions of this amount for most four-person households when averaged over the fiscal year. All savings during 1982 would have been realized during the January through March period due to the effects of the COLA delay in that fiscal year. The maximum allotment level for a four-person household during calendar year 1981 was $233 per month; this would have increased under the policies then in effect, and the inflation assumptions then in force, to $265 in January. The law change delayed this increase for three months, causing a projected difference in maximum allotments for this household size of $32 per month during the three-month period (or $8 per month when averaged over the year). Using actual rather than projected food prices, the maximum allotments for this household size would have increased to $246 in January 1982. The delay would thus have resulted in monthly benefit reductions for most four-person households of $13 during the three-month period. Projected and actual differences for households with fewer than four members would have been less than the amounts for the four-person household, and those for households with more than four members would have been greater.

The schedule of COLAs specified in the 1981 reconciliation act would have caused benefit reductions during six months and benefit increases during three months of fiscal year 1983, as compared to the adjustment schedule previously in effect. In fiscal year 1984, benefit reductions would have occurred during nine months and benefit increases during three months. The figures in Table 2 average these effects over the entire year.

TABLE 2. ORIGINAL AND REVISED PROJECTIONS OF FOOD PRICE INFLATION, ESTIMATED AVERAGE REDUCTIONS IN MAXIMUM ALLOTMENT LEVELS, AND ORIGINAL AND REVISED ESTIMATES OF SAVINGS FOR THE CHANGE IN THE FOOD STAMP PROGRAM COLA ENACTED IN THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981, FISCAL YEARS 1982 THROUGH 1984

	1982	1983	1984
Food Price Inflation (percent change) a/			
Revised b/	3.3	2.2	5.1
Original c/	9.1	6.5	5.7
Allotment Level Difference ($/mo.) d/			
Revised	-3.25	-2.00	-5.00
Original	-8.00	-8.50	-8.75
Estimated Savings (millions of dollars)			
Revised	214	131	318
Original	512	462	440
Difference	-298	-331	-122

SOURCE: Congressional Budget Office.

a/ Food price inflation measured by the change in the annual average value of the Department of Agriculture's Thrifty Food Plan for a four-person household.

b/ Based on CBO economic assumptions, February 1983.

c/ Based on economic assumptions adopted by the Congress for use in estimating the first resolution in the fiscal year 1982 budget.

d/ Difference for a four-person household in the 48 coterminous states and the District of Columbia.

COLA Change--Food Stamp and Commodity Distribution Amendments of 1981

The Food Stamp and Commodity Distribution Amendments of 1981 provided for further changes in the cost-of-living adjustments. An inflation adjustment was to be made each October, beginning in 1982, based upon values of the Thrifty Food Plan in the preceding June. As a result of this change, no adjustment was made during fiscal year 1982. Relative to the schedule specified in the 1981 reconciliation act, in which maximum allotments were to be adjusted in April 1982, allotment levels, and thus benefit levels, were lower for the last six months of fiscal year 1982 than they would have been without this further change in the law.

The COLA schedule change in the Food Stamp and Commodity Distribution Amendments of 1981 would cause increased costs during fiscal years 1983 and 1984 (using as the basis of comparison the 1981 reconciliation act schedule). This is primarily because the COLA was returned to a 12-month adjustment schedule, rather than a 15-month adjustment schedule as specified in the 1981 reconciliation act. During times of rising prices, more frequent adjustments in the allotment levels result in greater program expenditures. Table 3, which is similar to Table 2, shows original and revised food price inflation assumptions, maximum allotment level differences, and estimated effects on program outlays. Note that the food price inflation assumptions on which the original estimates were based differ from those used to estimate changes in the 1981 reconciliation act. By late 1981, when the Food Stamp and Commodity Distribution Amendments of 1981 were being considered, it was clear that the earlier inflation assumptions used to estimate effects of the 1981 reconciliation act were too high. 1/

CHILD NUTRITION PROGRAM CHANGES

The 1981 reconciliation act made a number of changes in the Child Nutrition programs. CBO has reestimated the effects of changes in the structure of reimbursement rates and COLA schedules, restrictions on the eligibility of sponsors of Summer Food Service program sites, and new income documentation and verification requirements. Table 4 shows these reestimates.

1/ At the request of Agriculture Committee staff, estimates of the effects of this COLA schedule change were prepared based upon several different sets of more recent economic assumptions. The assumptions used as the basis for estimates shown in the Table 3 were those adopted by the Administration for its mid-session review of the 1982 budget.

TABLE 3. ORIGINAL AND REVISED PROJECTIONS OF FOOD PRICE INFLATION, ESTIMATED AVERAGE CHANGES IN MAXIMUM ALLOTMENT LEVELS, AND ORIGINAL AND REVISED EFFECTS ON OUTLAYS OF THE CHANGE IN THE FOOD STAMP PROGRAM COST-OF-LIVING ADJUSTMENT SCHEDULE ENACTED IN THE FOOD STAMP AND COMMODITY DISTRIBUTION AMENDMENTS OF 1981, FISCAL YEARS 1982 THROUGH 1984

	1982	1983	1984
Food Price Inflation (percent change) a/			
Revised b/	3.3	2.2	5.1
Original c/	7.7	6.5	5.4
Allotment Level Difference ($/mo.) d/			
Revised	-6.50	7.50	3.00
Original	-11.50	4.25	4.00
Estimated Savings (millions of dollars)			
Revised	410	-485	-190
Original	700	-250	-220
Difference	-290	-235	30

SOURCE: Congressional Budget Office.

a/ Food price inflation measured by the change in the annual average value of the Department of Agriculture's Thrifty Food Plan for a four-person household.

b/ Based on CBO economic assumptions, February 1983.

c/ Based on economic assumptions used by the Administration for the mid-session review of the fiscal year 1982 budget.

d/ Difference for a four-person household in the 48 coterminous states and the District of Columbia.

TABLE 4: ORIGINAL AND REVISED ESTIMATES OF THE EFFECTS ON CHILD NUTRITION OUTLAYS OF PROGRAM CHANGES ENACTED IN THE OMNIBUS RECONCILIATION ACT OF 1981, FISCAL YEARS 1982 THROUGH 1984 (By fiscal year, in millions of dollars)

	1982	1983	1984
Original Estimated Savings	1,369	1,471	1,571
Reestimates			
Lower than projected food price inflation	-77	-77	-88
Summer Food Service Program for Children	-36	-39	-41
Income documentation and verification	-50	-50	-50
Total reestimates	-163	-166	-179
Revised Estimated Savings	1,206	1,305	1,392

SOURCE: Congressional Budget Office.

Lower rates of food price inflation have the effect of reducing expected savings from changes that lowered reimbursement rates in most programs and that made the schedule of inflation adjustments annual rather than semiannual. The reasons are similar to those discussed for the Food Stamp program. Original and revised food price inflation assumptions are shown in Table 5.

The 1981 reconciliation act limited the sponsorship of summer food service sites to public or private nonprofit school food authorities, local, municipal or county governments, and residential nonprofit summer camps. Service was also restricted to those areas where at least 50 percent of the children meet the income requirements for free or reduced-price school lunches. Before enactment of this legislation, private nonprofit organizations other than schools and residential camps could sponsor programs, and programs could be operated in areas where more than one-third of the children were eligible for free or reduced-price school lunches.

TABLE 5. ORIGINAL AND REVISED PROJECTED RATES OF FOOD PRICE INFLATION AFFECTING REIMBURSEMENT RATES IN THE CHILD NUTRITION PROGRAMS a/

	May 1981	May 1982	May 1983	May 1984
Revised b/	9.3	5.4	5.1	5.1
Original c/	10.6	9.4	7.2	6.5

SOURCE: Congressional Budget Office.

a/ Inflation measured as the percent change in the Consumer Price Index for food away from home during the 12 months preceding the month shown. Reimbursement rates are, in most programs, currently adjusted in July based upon changes in this index occurring during the 12-month period ending the preceding May.

b/ Based on CBO economic assumptions, February 1983.

c/ Based on economic assumptions adopted by the Congress for use in estimating the first resolution in the fiscal year 1982 budget.

These changes saved less than had been estimated at the time of passage of the 1981 reconciliation act (see Table 6). One apparent reason for the reduction in savings was the transfer of sponsorship of some sites from sponsors made ineligible by the change to eligible sponsors.

The final change in the Child Nutrition programs for which reestimates have been made involves documentation of income sources and verification of information on applications for free and reduced-price meals. Previously, applicants had not been required to document their income sources, and states had not been free to verify information submitted on the applications. The original estimate of savings from the Administration was $100 million per year in fiscal years 1982 through 1984.

Based on information from the Administration, the estimate of savings from these additional verification procedures has been reduced to $50 million per year. The reduction results from a smaller decline in free meal participation than anticipated.

TABLE 6. ORIGINAL AND REVISED ESTIMATES OF OUTLAY SAVINGS OF SUMMER FOOD SERVICE PROGRAM CHANGES ENACTED IN THE OMNIBUS RECONCILIATION ACT OF 1981, FISCAL YEARS 1982 THROUGH 1984 (By fiscal year, in millions of dollars)

	1982	1983	1984
Revised Estimated Savings	49	54	58
Original Estimated Savings	85	93	99
Difference	-36	-39	-41

SOURCE: Congressional Budget Office.